

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Bad Axe</b>	County <b>Huron</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>9/20/05</b>	Date Accountant Report Submitted to State: <b>10/28/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

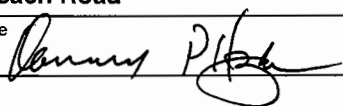
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Hyzer, Hill, Kuzak &amp; Co. P.C.</b>			
Street Address <b>1242 Sand Beach Road</b>	City <b>Bad Axe</b>	State <b>MI</b>	ZIP <b>48413</b>
Accountant Signature 		Date <b>10/17/05</b>	

**City of Bad Axe, Michigan**

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**Financial Report  
for the Fiscal Year ended  
June 30, 2005**

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# **HYZER, HILL, KUZAK & CO., P.C.**

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Bruce Hill  
Donald Kuzak  
Michael Doerr

## **Independent Auditor's Report**

To the Honorable Mayor and  
Members of the City Council  
City of Bad Axe, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bad Axe, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bad Axe, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bad Axe, Michigan as of June 30, 2005 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress and budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bad Axe, Michigan's basic financial statements. The accompanying other supplemental information as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hyper, Hill, Hughes & Co., P.C.*

September 20, 2005

As management of the City of Bad Axe, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$8,852,469 (*net assets*). Of this amount, \$3,898,409 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors
- The government's total net assets increased by \$608,392.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,399,289. Over sixty-nine percent of this total amount, or \$972,676 is *available for spending* at the government's discretion (*unrestricted fund balance*).
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$928,229 or forty-nine percent of total general fund expenditures.
- The City's total debt decreased by \$444,414 during the fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction and overview to the City's basic financial statements.

The City's basic financial statements are made up of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities). The governmental activities of the City include general government (including administration), public safety, public works, economic development and recreation and culture operations.

The government-wide financial statements can be found on pages 10 - 12 of this report.

**Fund financial statements.** A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare this information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Street, Local Street and Brick Street Assessment Funds, each of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 13 - 18 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for motor pool operations. Because this service predominately benefits governmental rather than business type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the water and sewer operations, which is considered to be a major fund of the City. The equipment pool internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 19 - 22 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The only fund is the Tax Account. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 23 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 - 43 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and the budgetary information for the three major governmental funds. This required supplemental information can be found on pages 44 - 49 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining, individual fund statements and schedules can be found on pages 50 - 56 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$8,852,469 at the close of the fiscal year.

A significant portion of the City's net assets (51% or \$4,527,447) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The table below shows the City's net assets as of June 30, 2005 and 2004.

#### City's Net Assets

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 2,314,929	\$ 2,504,928	\$ 2,327,302	\$ 2,224,666	\$ 4,642,231	\$ 4,729,594
Capital assets	3,764,798	3,784,241	4,220,073	4,087,982	7,984,871	7,872,223
<b>Total assets</b>	<b>6,079,727</b>	<b>6,289,169</b>	<b>6,547,375</b>	<b>6,312,648</b>	<b>12,627,102</b>	<b>12,601,817</b>
Long-term liabilities outstanding	1,085,775	1,219,879	1,992,404	2,313,481	3,078,179	3,533,360
Other liabilities	309,224	485,544	387,230	354,128	696,454	839,672
<b>Total liabilities</b>	<b>1,394,999</b>	<b>1,705,423</b>	<b>2,379,634</b>	<b>2,667,609</b>	<b>3,774,633</b>	<b>4,373,032</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	2,634,778	2,510,884	1,892,669	1,459,501	4,527,447	3,970,385
Restricted	426,613	431,783	-	-	426,613	431,783
Unrestricted	1,623,337	1,641,079	2,275,072	2,185,538	3,898,409	3,826,617
<b>Total net assets</b>	<b>\$ 4,684,728</b>	<b>\$ 4,583,746</b>	<b>\$ 4,167,741</b>	<b>\$ 3,645,039</b>	<b>\$ 8,852,469</b>	<b>\$ 8,228,785</b>

Of the remaining balance of net assets, approximately (5% or \$426,613) are restricted resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (44% or \$3,898,409) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business type activities.

The City's net assets increased by \$608,392 during fiscal year 2005. Business type activities increased net assets by \$486,684, which represents 80 percent of the total growth in net assets for the City of Bad Axe. The Water and Sewer Fund accounts for the majority of this increase and is attributable to water and sewer lines contributed by developers and system-connection related fees. Key elements of this increase are shown in the following table.

**City's Change in Net Assets**

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue:						
Program revenue:						
Charges for services	\$ 142,521	\$ 513,700	\$ 1,203,282	\$ 936,192	\$ 1,345,803	\$ 1,449,892
Operating grants and contributions	315,896	312,370	-	-	315,896	312,370
General revenue:						
Property taxes	1,469,049	1,397,456	109,368	135,376	1,578,417	1,532,832
Grants and contributions not restricted to specific programs	401,363	406,556	5,037	6,296	406,400	412,852
Other	144,709	123,359	45,047	25,455	189,756	148,814
Total revenue	2,473,538	2,753,441	1,362,734	1,103,319	3,836,272	3,856,760
Expenses:						
General government	597,324	562,338	-	-	597,324	562,338
Public safety	722,574	714,816	-	-	722,574	714,816
Public works	728,462	910,178	-	-	728,462	910,178
Economic development	25,886	-	-	-	25,886	-
Recreation and cultural	211,084	115,525	-	-	211,084	115,525
Interest on long-term debt	59,430	60,993	142,106	161,471	201,536	222,464
Other	7,070	-	-	-	7,070	-
Water and sewer	-	-	1,091,246	934,676	1,091,246	934,676
Total expenses	2,351,830	2,363,850	1,233,352	1,096,147	3,585,182	3,459,997
Increase in net assets	121,708	389,591	129,382	7,172	251,090	396,763
Capital assets donated	-	-	357,302	-	357,302	-
Change in net assets	121,708	389,591	486,684	7,172	608,392	396,763
Net assets, beginning of year	4,563,020	4,194,155	3,681,057	3,637,867	8,244,077	7,832,022
Net assets, end of year	\$ 4,684,728	\$ 4,583,746	\$ 4,167,741	\$ 3,645,039	\$ 8,852,469	\$ 8,228,785

**Governmental Activities**

Program revenues, which include user fees and charges and restricted operating and capital grants and contributions, represent 19 percent of total governmental revenue sources. Program revenues reduce the net cost of the governmental functions to be financed from the City's general revenues, which are comprised primarily of property taxes and state revenue sharing.

### Business Type Activities

Business type activities increased the City's net assets by \$486,684. The Water and Sewer Fund accounts for the majority of this increase and represents water and sewer lines contributed by developers and system connection related fees.

### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unrestricted fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,399,289, a decrease of \$10,537 in comparison with the prior year. Sixty-nine percent (\$972,676) of this amount constitutes *unrestricted fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *restricted* to indicate that it is not available for new spending because it has already been committed to pay for specific capital projects, capital expenditures and debt service.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unrestricted fund balance of the General Fund was \$928,229. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total fund expenditures: unrestricted fund balance represents 49% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$35,687 during the current fiscal year. This increase was in line with budgetary expectations.

The primary funds utilized by the City for street construction and maintenance are the Major and Local Street Funds. At the conclusion of the fiscal year, the Major Street Fund had a fund balance of \$163,875 (an increase of \$3,102); the Local Street Fund had a balance of \$50,824 (an increase of \$39,470). The fund balance of the Brick Street Assessment Fund decreased by \$57,386 due to the completion of a road construction project.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of Water and Sewer funds at the end of the year amounted to \$2,275,072. The Water and Sewer Fund had an increase in net assets for the year of \$486,684. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business type activities.

The Equipment Rental Internal Service Fund has unrestricted net assets of \$783,820 which represents a decrease of \$33,434 during the current fiscal year. This decrease resulted from a transfer of \$100,000 to the General Fund for the purpose of financing park improvements.

### General Fund Budgetary Highlights

Revenue was above budget expectations by \$9,729 for the fiscal year ended June 30, 2005. City departments overall stayed below budget, resulting in total expenditures below budget by \$777. Differences between the original budget and the final amended budget were minimal. Significant budget changes included reductions in refuse collection income because this activity was transferred to the Water and Sewer Fund.

### Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounted to \$7,984,871. This investment in capital assets includes land, buildings and improvements, systems, equipment, and infrastructure. The total increase in the City's investment in capital assets for the fiscal year was \$112,648.

Major capital asset expenditures during the fiscal year included the following:

- The street paving of several City streets
- The construction of a skate park.

The table below shows the City's Capital Assets as of June 30, 2005 and 2004.

#### City's Capital Assets

(net of depreciation)

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 436,400	\$ 436,400	\$ -	\$ -	\$ 436,400	\$ 436,400
Buildings and improvements	375,923	394,101	-	-	375,923	394,101
Systems	-	-	4,127,216	4,087,982	4,127,216	4,087,982
Equipment	290,896	385,190	-	-	290,896	385,190
Infrastructure	2,503,973	2,568,550	-	-	2,503,973	2,568,550
Constuction in progress	157,606	-	92,857	-	250,463	-
Total net assets	<u>\$ 3,764,798</u>	<u>\$ 3,784,241</u>	<u>\$ 4,220,073</u>	<u>\$ 4,087,982</u>	<u>\$ 7,984,871</u>	<u>\$ 7,872,223</u>

Additional information on the City's capital assets can be found in Note 5 on pages 33 - 35 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$3,457,424. These amounts are summarized below.

#### City's Outstanding Debt

General Obligation and Revenue Bonds

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Drain assessments	\$ 575,242	\$ 658,803	\$ -	\$ -	\$ 575,242	\$ 658,803
Revenue/Special assessment bonds	-	-	2,217,404	2,403,481	2,217,404	2,403,481
General obligation bonds	-	-	110,000	225,000	110,000	225,000
Installment contracts	381,980	426,129	-	-	381,980	426,129
Land contracts	172,798	188,425	-	-	172,798	188,425
Total net assets	<u>\$ 1,130,020</u>	<u>\$ 1,273,357</u>	<u>\$ 2,327,404</u>	<u>\$ 2,628,481</u>	<u>\$ 3,457,424</u>	<u>\$ 3,901,838</u>

The City's total debt decreased by \$444,414 during the current fiscal year, with no new debt incurred.

Additional information on the City's long-term debt can be found in Note 7 on pages 37 - 39 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

- Governmental fund budgets for the fiscal year ending June 30, 2006 anticipate spending in excess of revenues by \$182,000. Most of this excess spending (\$145,000) is represented in the road area and is being financed by available cash surpluses from prior years. The City's available governmental fund balances as of June 30, 2006 are expected to total \$1,136,000. This represents about 41% of budgeted expenditures of these funds.
- The 2006 budget is predicated based on total property tax levies of 19.56 mills which is the same amount levied in 2005.
- The budget anticipates a reduction to the workforce due to normal attrition.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Kay Goebel, City Clerk, 300 E. Huron Avenue, Bad Axe, MI 48413.

## **Basic Financial Statements**

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**Statement of Net Assets**  
**June 30, 2005**

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,986,750	\$ 1,137,590	\$ 3,124,340	\$ 182,359
Cash not qualifying as cash equivalents	-	883,325	883,325	-
Receivables, net of allowance	197,200	143,590	340,790	5,932
Special assessments	223,667	-	223,667	-
Internal balances	(110,307)	110,307	-	-
Due from component units	10,283	-	10,283	-
Due from fiduciary fund	7,336	-	7,336	-
Deferred charges	-	52,490	52,490	-
Prepays	-	-	-	1,916
Capital assets, net	3,764,798	4,220,073	7,984,871	277,423
<b>Total assets</b>	<b>6,079,727</b>	<b>6,547,375</b>	<b>12,627,102</b>	<b>467,630</b>
<b>LIABILITIES:</b>				
Accounts payable	45,039	20,579	65,618	-
Accrued payroll and liabilities	98,574	21,425	119,999	1,687
Accrued interest	19,003	9,797	28,800	-
Due to primary government	-	-	-	10,283
Deferred revenue	2,265	429	2,694	166
Noncurrent liabilities:				
Due within one year	144,343	335,000	479,343	63,575
Due in more than one year	1,085,775	1,992,404	3,078,179	-
<b>Total liabilities</b>	<b>1,394,999</b>	<b>2,379,634</b>	<b>3,774,633</b>	<b>75,711</b>
<b>NET ASSETS:</b>				
Investment in capital assets, net	2,634,778	1,892,669	4,527,447	277,423
Restricted:				
Capital projects	5,245	-	5,245	-
Debt service	1,015	-	1,015	-
Other purposes	420,353	-	420,353	20,045
Unrestricted	1,623,337	2,275,072	3,898,409	94,451
<b>Total net assets</b>	<b>\$ 4,684,728</b>	<b>\$ 4,167,741</b>	<b>\$ 8,852,469</b>	<b>\$ 391,919</b>

The notes to financial statements are an integral part of this statement.

# City of Bad Axe, Michigan

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary government:</b>			
Governmental activities:			
General government	\$ 597,324	\$ 25,477	\$
Public safety	722,574	11,562	49,769
Public works	728,462	56,514	266,127
Economic development	25,886	-	-
Recreation and culture	211,084	48,968	-
Other	7,070	-	-
Interest on long-term debt	59,430	-	-
Total governmental activities	2,351,830	142,521	315,896
Business type activities:			
Water and sewer	1,091,246	1,203,282	-
Interest on long-term debt	142,106	-	-
Total business type activities	1,233,352	1,203,282	-
Total primary government	<u>\$ 3,585,182</u>	<u>\$ 1,345,803</u>	<u>\$ 315,896</u>
<b>Component units:</b>			
Economic Development Corporation	\$ -	\$ -	\$ -
Downtown Development Authority	106,157	-	-
Library	209,492	61,023	-
Total component units	<u>\$ 315,649</u>	<u>\$ 61,023</u>	<u>\$ -</u>
General revenues:			
Property taxes			
State sources			
Special assessments			
Unrestricted investment income			
Gain (loss) on sale of equipment			
Miscellaneous revenue			
Total general revenues and transfers			
Change in net assets			
Capital contributions			
Prior period adjustment			
Net assets, beginning of year			
Net assets, end of year			

The notes to financial statements are an integral part of this statement.

**Statement of Activities**  
**Year Ended June 30, 2005**

**Net (Expense) Revenue and Change in Net Assets**

Primary Government		Total	Component Units
Governmental Activities	Business Type Activities		
\$ (571,847)	\$ -	\$ (571,847)	\$ -
(661,243)	-	(661,243)	-
(405,821)	-	(405,821)	-
(25,886)	-	(25,886)	-
(162,116)	-	(162,116)	-
(7,070)	-	(7,070)	-
(59,430)	-	(59,430)	-
<u>(1,893,413)</u>	<u>-</u>	<u>(1,893,413)</u>	<u>-</u>
-	112,036	112,036	-
<u>-</u>	<u>(142,106)</u>	<u>(142,106)</u>	<u>-</u>
-	(30,070)	(30,070)	-
<u>(1,893,413)</u>	<u>(30,070)</u>	<u>(1,923,483)</u>	<u>-</u>
-	-	-	-
-	-	-	(106,157)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(148,469)</u>
-	-	-	(254,626)
1,469,049	109,368	1,578,417	164,002
401,363	5,037	406,400	11,674
34,094	-	34,094	-
33,251	45,047	78,298	1,049
1,213	-	1,213	-
76,151	-	76,151	34,930
<u>2,015,121</u>	<u>159,452</u>	<u>2,174,573</u>	<u>211,655</u>
121,708	129,382	251,090	(42,971)
-	357,302	357,302	-
(20,726)	36,018	15,292	-
<u>4,583,746</u>	<u>3,645,039</u>	<u>8,228,785</u>	<u>434,890</u>
<u>\$ 4,684,728</u>	<u>\$ 4,167,741</u>	<u>\$ 8,852,469</u>	<u>\$ 391,919</u>

The notes to financial statements are an integral part of this statement.

**City of Bad Axe, Michigan**

	Major Funds			
	General	Major Street	Local Street	Brick Street Assessment
<b>Assets</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 1,040,031	\$ 163,846	\$ 40,756	\$ 4,683
Receivables:				
Taxes	1,219	-	754	-
Interest and accounts	4,154	-	-	-
Other governmental units	138,831	30,356	21,032	-
Special assessments	-	-	-	223,667
Due from other funds	13,625	-	6,290	-
Due from component units	10,283	-	-	-
Total assets	<u>\$ 1,208,143</u>	<u>\$ 194,202</u>	<u>\$ 68,832</u>	<u>\$ 228,350</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 30,643	\$ 3,550	\$ 1,795	\$ -
Accrued payroll and liabilities	85,019	8,417	481	-
Due to other funds	163,033	18,360	14,978	-
Deferred revenue	1,219	-	754	223,667
Total liabilities	279,914	30,327	18,008	223,667
<b>Fund Balances</b>				
Restricted:				
Capital projects	-	-	-	4,683
Debt service	-	-	-	-
Other purposes	-	163,875	50,824	-
Unrestricted	928,229	-	-	-
Total fund balances	<u>928,229</u>	<u>163,875</u>	<u>50,824</u>	<u>4,683</u>
Total liabilities and fund balances	<u>\$ 1,208,143</u>	<u>\$ 194,202</u>	<u>\$ 68,832</u>	<u>\$ 228,350</u>

The notes to financial statements are an integral part of this statement.

**Governmental Funds**  
**Balance Sheet**  
**June 30, 2005**

Other Nonmajor Governmental Funds	Total Governmental Funds
<u>                    </u>	<u>                    </u>
\$ 223,835	\$ 1,473,151
292	2,265
562	4,716
-	190,219
-	223,667
37,740	57,655
-	10,283
<u>                    </u>	<u>                    </u>
<u>\$ 262,429</u>	<u>\$ 1,961,956</u>
\$ 4,653	\$ 40,641
4,556	98,473
1,250	197,621
292	225,932
<u>                    </u>	<u>                    </u>
10,751	562,667
562	5,245
1,015	1,015
205,654	420,353
44,447	972,676
<u>                    </u>	<u>                    </u>
251,678	1,399,289
<u>                    </u>	<u>                    </u>
<u>\$ 262,429</u>	<u>\$ 1,961,956</u>

The notes to financial statements are an integral part of this statement.

**Reconciliation of Fund Balance on the Balance Sheet for  
Governmental Funds to Net Assets of Governmental Activities  
on the Statement of Net Assets  
June 30, 2005**

Fund balance, total governmental funds		\$ 1,399,289
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets	5,847,745	
Accumulated depreciation	<u>(2,320,672)</u>	3,527,073
Long-term receivables such as special assessments are expected to be collected over several years in the governmental funds and are not available to pay for current year expenditures.		
		223,667
Internal Service Fund used by management to charge cost of equipment used. The assets and liabilities of the internal service fund are included in the governmental activities statement of net assets.		
		783,820
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Drain assessments	(575,242)	
Notes payable	(554,778)	
Accrued interest payable	(19,003)	
Accrued compensated absence	<u>(100,098)</u>	<u>(1,249,121)</u>
Net assets, governmental activities		<u>\$ 4,684,728</u>

**City of Bad Axe, Michigan**

	Major Funds			
	General	Major Street	Local Street	Brick Street Assessment
<b>Revenues:</b>				
Property taxes	\$ 1,163,309	\$ -	\$ 42,959	\$ -
Licenses and permits	14,967	-	-	-
Federal sources	40,000	-	-	-
State sources	402,641	190,714	75,413	-
Local sources	7,500	-	-	-
Special assessments	-	-	359	33,735
Fines and forfeitures	8,500	-	-	-
Interest income	18,090	1,921	400	119
Rental income	3,010	-	-	-
Miscellaneous	123,819	863	348	-
<b>Total revenues</b>	<b>1,781,836</b>	<b>193,498</b>	<b>119,479</b>	<b>33,854</b>
<b>Expenditures:</b>				
General government	531,436	-	-	57,668
Public safety	741,659	-	-	-
Public works	304,971	151,471	151,934	-
Economic development	25,886	-	-	-
Recreation and culture	256,803	-	-	-
Other	7,070	-	-	-
Debt service:				
Principal	15,627	-	-	24,600
Interest and charges	10,597	-	-	8,972
<b>Total expenditures</b>	<b>1,894,049</b>	<b>151,471</b>	<b>151,934</b>	<b>91,240</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(112,213)</b>	<b>42,027</b>	<b>(32,455)</b>	<b>(57,386)</b>
<b>Other financing sources (uses):</b>				
Transfers in	150,000	-	71,925	-
Transfers out	(2,100)	(38,925)	-	-
<b>Total other financing sources (uses)</b>	<b>147,900</b>	<b>(38,925)</b>	<b>71,925</b>	<b>-</b>
<b>Excess of revenue and other financing sources over (under) expenditures and other financing uses</b>	<b>35,687</b>	<b>3,102</b>	<b>39,470</b>	<b>(57,386)</b>
<b>Fund balance, beginning of year</b>	<b>913,268</b>	<b>160,773</b>	<b>11,354</b>	<b>62,069</b>
<b>Prior period adjustment</b>	<b>(20,726)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$ 928,229</b>	<b>\$ 163,875</b>	<b>\$ 50,824</b>	<b>\$ 4,683</b>

The notes to financial statements are an integral part of this statement.

**Governmental Funds**

**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2005**

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 262,781	\$ 1,469,049
-	14,967
-	40,000
8,491	677,259
52,030	59,530
-	34,094
-	8,500
3,434	23,964
-	3,010
-	125,030
<u>326,736</u>	<u>2,455,403</u>
-	589,104
1,551	743,210
25,139	633,515
-	25,886
123,394	380,197
-	7,070
-	-
83,561	123,788
<u>43,601</u>	<u>63,170</u>
<u>277,246</u>	<u>2,565,940</u>
49,490	(110,537)
2,100	224,025
<u>(83,000)</u>	<u>(124,025)</u>
<u>(80,900)</u>	<u>100,000</u>
(31,410)	(10,537)
283,088	1,430,552
-	(20,726)
<u>\$ 251,678</u>	<u>\$ 1,399,289</u>

The notes to financial statements are an integral part of this statement.

**Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balance of the Governmental Funds  
to the Statement of Activities  
Year Ended June 30, 2005**

Net change in fund balance, total governmental funds \$ (10,537)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	304,834	
Depreciation expense	<u>(253,660)</u>	51,174

Revenue, such as special assessment revenue, reported in the statement of activities in previous years did not provide current financial resources in the governmental funds until the current year. (22,333)

Internal service fund used by management to charge costs of equipment used. The net revenues (expenses) attributable to this fund is reported with governmental activities. (33,434)

The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net assets.

Principal payments on long term liabilities		143,337
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Decrease in accrued interest payable	3,740	
Increase in accrued compensated absences	<u>(10,239)</u>	<u>(6,499)</u>

Change in net assets, governmental activities		<u><u>\$ 121,708</u></u>
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**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2005**

	<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Internal Service Fund</u>
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,059,530	\$ 513,599
Cash not qualifying as cash equivalents	883,325	-
Receivables:		
Taxes	429	-
Interest and accounts	133,610	-
Short-term contracts	3,748	-
Due from other funds	<u>125,293</u>	<u>40,715</u>
Total current assets	2,205,935	554,314
<b>Non-current assets:</b>		
Restricted cash and cash equivalents	78,060	-
Long-term contracts	5,803	-
Deferred charges	52,490	-
Capital assets, net	<u>4,220,073</u>	<u>237,725</u>
Total noncurrent assets	<u>4,356,426</u>	<u>237,725</u>
Total assets	6,562,361	792,039
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	20,579	4,398
Accrued payroll and liabilities	21,425	101
Accrued interest	9,797	-
Due to other funds	14,986	3,720
Deferred revenue	429	-
General obligation bonds	<u>335,000</u>	<u>-</u>
Total current liabilities	402,216	8,219
<b>Long-term liabilities (net of current portion):</b>		
General obligation bonds	<u>1,992,404</u>	<u>-</u>
Total liabilities	2,394,620	8,219
<b>Net assets:</b>		
Investment in capital assets, net	1,892,669	237,725
Unrestricted	<u>2,275,072</u>	<u>546,095</u>
Total net assets	<u>\$ 4,167,741</u>	<u>\$ 783,820</u>

The notes to financial statements are an integral part of this statement.

**Proprietary Funds**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2005**

	Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Fund
<b>Operating revenues:</b>		
Waste collection fees	\$ 126,328	\$ -
Sale of water	455,026	-
Sewage disposal charges	578,452	-
Equipment rentals	-	251,523
Permits and tap fees	25,653	-
Other	17,823	2,205
Total operating revenues	1,203,282	253,728
<b>Operating Expenses:</b>		
Cost of waste collection	122,387	-
Cost of water purchased	157,408	-
Cost of sewage treatment	485,191	-
Operations and maintenance	-	91,830
Depreciation	253,557	85,832
General and administrative	72,703	20,000
Total operating expenses	1,091,246	197,662
Operating Income (loss)	112,036	56,066
<b>Non-operating revenues (expenses):</b>		
Property taxes	109,368	-
State sources	5,037	-
Investment income	45,047	9,287
Interest expense	(142,106)	-
Gain on sale of equipment	-	1,213
Total non-operating revenue (expenses)	17,346	10,500
Net income (loss) before contributions and transfers	129,382	66,566
Capital contributions	357,302	-
Transfers out	-	(100,000)
Change in net assets	486,684	(33,434)
Prior period adjustment	36,018	-
Net assets, beginning of year	3,645,039	817,254
Net assets, end of year	<u>\$ 4,167,741</u>	<u>\$ 783,820</u>

The notes to financial statements are an integral part of this statement.

**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2005**

	<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Internal Service Fund</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 1,109,116	\$ 260,321
Payments to employees	(247,796)	(16,767)
Payments to suppliers	<u>(567,094)</u>	<u>(97,338)</u>
Net cash provided by operating activities	294,226	146,216
<b>Cash flows from noncapital financing activities:</b>		
Property taxes	109,368	-
Interfund activity	71,012	(100,000)
State sources	<u>5,037</u>	<u>-</u>
Net cash used by noncapital financing activities	185,417	(100,000)
<b>Cash flows from capital and related financing activities:</b>		
Sale of equipment	-	1,213
Acquisition and construction of capital assets	(28,345)	(15,215)
Principal paid on bond debt and leases	(315,000)	-
Interest paid on bond debt and leases	<u>(129,555)</u>	<u>-</u>
Net cash used by capital and related financing activities	(472,900)	(14,002)
<b>Cash flows from investing activities:</b>		
Investment income	45,047	9,287
Purchases of investments	(1,483,325)	-
Maturity of investments	<u>1,685,594</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>247,316</u>	<u>9,287</u>
Net decrease in cash and cash equivalents for the year	254,059	41,501
Cash and cash equivalents, beginning of year	<u>883,531</u>	<u>472,098</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,137,590</u></u>	<u><u>\$ 513,599</u></u>

The notes to financial statements are an integral part of this statement.

**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2005**  
**(Continued)**

	<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Internal Service Fund</u>
<b>Reconciliation of net income to net cash provided by operating activities:</b>		
Operating income (loss) for the year	\$ 112,036	\$ 56,066
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	253,557	85,832
Amortization of bond costs	5,976	-
Change in assets and liabilities:		
Receivables	(94,166)	6,591
Accounts payable	9,009	(5,790)
Accrued and other liabilities	5,466	3,517
Due to other funds	2,348	-
Net cash provided by operating activities	<u>\$ 294,226</u>	<u>\$ 146,216</u>

**Fiduciary Funds  
Statement of Net Assets  
June 30, 2005**

	Escrow Account
<b>Assets</b>	
Cash and cash equivalents	<u>\$      7,416</u>
<b>Liabilities</b>	
Accounts payable	\$          70
Due to other funds	7,336
Due to other governmental units	<u>10</u>
Total liabilities	<u>\$      7,416</u>

The notes to financial statements are an integral part of this statement.

**Discretely Presented Component Units**  
**Combining Statement of Net Assets**  
**June 30, 2005**

	Economic Development Corporation	Downtown Development Authority	Library	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 4,128	\$ 100,632	\$ 77,599	\$ 182,359
Receivables:				
Taxes	-	-	166	166
Interest and accounts	-	-	5,766	5,766
Prepays	-	-	1,916	1,916
Capital assets, net	-	-	277,423	277,423
<b>Total assets</b>	<b>4,128</b>	<b>100,632</b>	<b>362,870</b>	<b>467,630</b>
<b>Liabilities:</b>				
Accrued payroll and liabilities	-	-	1,687	1,687
Due to primary government	-	80	10,203	10,283
Deferred revenue	-	-	166	166
Noncurrent liabilities:				
Due within one year	-	63,575	-	63,575
<b>Total liabilities</b>	<b>-</b>	<b>63,655</b>	<b>12,056</b>	<b>75,711</b>
<b>Net assets:</b>				
Investment in capital assets, net	-	-	277,423	277,423
Restricted:				
Other purposes	-	-	20,045	20,045
Unrestricted	4,128	36,977	53,346	94,451
<b>Total net assets</b>	<b>\$ 4,128</b>	<b>\$ 36,977</b>	<b>\$ 350,814</b>	<b>\$ 391,919</b>

**Discretely Presented Component Units  
Combining Statement of Activities  
For the Year Ended June 30, 2005**

	Expenses	Net Expenses and Change in Net Assets			
		Economic Development Corporation	Downtown Development Authority	Library	Total
Governmental activities:					
Public works	\$ 79,403	\$ -	\$ (79,403)	\$ -	\$ (79,403)
Recreation and cultural	209,492	-	-	(209,492)	(209,492)
Debt service	26,754	-	(26,754)	-	(26,754)
Total	<u>\$ 315,649</u>	\$ -	\$ (106,157)	\$ (209,492)	\$ (315,649)
Program revenue		-	-	61,023	61,023
Net governmental activities		-	(106,157)	(148,469)	(254,626)
General revenue:					
Property taxes		-	85,945	78,057	164,002
State sources		-	-	11,674	11,674
Unrestricted investment income		-	-	1,049	1,049
Miscellaneous revenue		-	100	34,830	34,930
Total general revenue		-	86,045	125,610	211,655
Change in net assets		-	(20,112)	(22,859)	(42,971)
Net assets, beginning of year		4,128	57,089	373,673	434,890
Net assets, end of year		<u>\$ 4,128</u>	<u>\$ 36,977</u>	<u>\$ 350,814</u>	<u>\$ 391,919</u>

## **Notes To Financial Statements**

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**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of the City of Bad Axe, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Bad Axe, Michigan:

**Reporting Entity**

The City of Bad Axe, Michigan is governed by an elected mayor and six-member council. The City is located in Huron County, Michigan, and has approximately 3,500 residents. Services provided to City residents include law enforcement, community enrichment and development, and human services. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. As defined by GASB Statement 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

**Discretely Presented Component Units** - The discretely presented component units' column in the combined financial statements include the financial data of the City's component units. The governing bodies of these component units are appointed by the City Council.

- a. The City of Bad Axe Downtown Development Authority (DDA) is a legally separate entity which promotes the economic growth of the business district of which it is composed.
- b. The City of Bad Axe Economic Development Corporation (EDC) is a legally separate entity which provides economic development assistance to businesses in the City.
- c. The Bad Axe Public Library provides library services to City residents. The City allocates tax millages to the Library, approves the Library's budgets and appoints the Library Board.

**Administrative Offices**

City of Bad Axe Downtown Development Authority  
300 East Huron Avenue  
Bad Axe, MI 48413

City of Bad Axe Economic Development Corporation  
300 East Huron Avenue  
Bad Axe, MI 48413

Bad Axe Public Library  
200 South Hanselman Street  
Bad Axe, MI 48413

The City participates in a cooperative unit with the Bad Axe Fire Protection Association and the Central Huron Ambulance Service Association. See Note 11 entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component units for which the City is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "major roads" within the City. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of 1951, as amended.
- The Local Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "local roads" within the City. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951.
- The Brick Street Assessment Fund is used to account for the construction activity for local improvements that benefit property owners.

The City reports the following major enterprise fund:

- The Water and Sewer Fund accounts for the activity of the water distribution and sewage collection systems administered by the City.

Additionally, the City reports the following fund types:

- The Internal Service Fund is used to account for the charges for equipment rental from funds and departments.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

### **Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments collected in the current fiscal period, and interest. All other revenue items are considered available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued before December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 for its Enterprise Funds.

#### **Assets, Liabilities and Net Assets or Equity**

**Cash and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business type activities are reported in the government-wide financial statements as “internal balances.”

**Property Taxes** – Property taxes are assessed as of December 31. The related property taxes are billed on December 1 of the following year and become a lien at that time. These taxes are payable at the City until February 15 without penalty. The final collection date by the City Treasurer is February 28 before they are added to the County tax rolls.

**Inventories** – Inventories of governmental funds are recorded as expenditures when purchased.

**Restricted Assets** – Restricted assets include amounts on deposit with Huron County being held for the construction, maintenance, and related debt service of storm drains within the City.

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has adopted the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary fund fixed assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Drains	20 years
Roads and sidewalks	20 years
Land improvements	15 – 40 years
Buildings and building improvements	30 years
Vehicles	5 years
Machinery and equipment	7 – 20 years
Office equipment and furniture	5 – 10 years
Water and sewer distribution systems	20 – 40 years

**Compensated Absences** – It is the City's policy to permit employees to accumulate earned but unused sick pay benefits, up to a maximum of 960 hours. Any hours in excess of the maximum is paid to the employees at a 50% rate, up to 40 hours. Upon termination of employment, City employees receive up to 50% of their sick pay accumulations depending upon years of service. Unused employee vacation time is paid to employees annually on their anniversary date or contract date. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment generally when the time is taken off, or employees terminate.

**Long-term Obligations** – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## Note 2 – Stewardship, Compliance and Accountability

The City Charter establishes the fiscal year as the twelve-month period beginning July 1. In April, the departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year. The City Manager submits a budget of estimated expenditures and revenues by the second regular City Council meeting in May. The City Council, subsequently, holds a budget hearing on the proposed budget at the first meeting in June.

The City Council legally enacts the budget at its second meeting in June through the passage of a budget resolution. The City Manager is authorized to make budgetary transfers within the appropriation centers and funds. All fund budgets are adopted at the departmental level for appropriation centers. Appropriations lapse at the end of each fiscal year.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budget expenditures for budgetary funds have been shown on a functional basis. The budget approved by the Council for the City's General, Special Revenue and Proprietary Funds were adopted at the departmental level. Budgets approved for the City's Debt Service and Component Unit Funds are adopted at the total expenditure level. The budgets were amended during the last quarter of the year to reflect certain changes in expenditure levels.

**Excess of Expenditures Over Appropriations in Budgeted Funds**

During the year, the City incurred expenditures at the budgetary center level over budget as follows:

<u>Fund</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Excess</u>
<b>Primary government:</b>			
General fund:			
Public works	\$ 304,343	\$ 304,971	\$ 628
Economic development	7,100	25,886	18,786
Recreation and culture	254,055	256,803	2,748
Other	7,057	7,070	13
Major Street:			
Transfers out	37,500	38,925	1,425
Brick street assessment:			
General government	55,479	57,668	2,189
Special revenue funds:			
Drug law enforcement			
Public safety	500	1,551	1,051
Drain debt			
Debt service	127,055	127,162	107
<b>Component units:</b>			
Downtown Development Authority			
Public works	14,300	15,828	1,528

**Note 3 – Receivables**

Receivables as of June 30, 2005 were as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Component Units</u>
Taxes	\$ 2,265	\$ 429	\$ 166
Accounts, net of allowance for uncollectibles of \$3,000	4,716	143,161	5,766
Due from other governments	190,219	-	-
Special assessments	<u>223,667</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 420,867</u>	<u>\$ 143,590</u>	<u>\$ 5,932</u>

**Note 4 - Deposits and Investments**

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City's deposits and investments are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and cash equivalents	\$ 1,986,750	\$ 1,137,590	\$ 3,124,340	\$ 7,416	\$ 182,359
Cash not qualifying as cash equivalents	<u>-</u>	<u>883,325</u>	<u>883,325</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,986,750</u>	<u>\$ 2,020,915</u>	<u>\$ 4,007,665</u>	<u>\$ 7,416</u>	<u>\$ 182,359</u>

The above amounts are classified by GASB Statement No. 3 in the following categories:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 3,749,415	\$ 7,116	\$ 182,159
Investments in securities, mutual funds and similar vehicles	246,698	-	-
Petty cash or cash on hand	375	300	200
Deposits held by Huron County	<u>11,177</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,007,665</u>	<u>\$ 7,416</u>	<u>\$ 182,359</u>

The deposits held by Huron County are reported within the Water and Sewer Fund and represent the City's share of cash in the County's Water and Sewer DPW Fund. The deposits are not held in the name of the City.

### **Deposits**

The above deposits were reflected in the accounts of the bank (without recognition of checks written, but not yet cleared or of deposits in transit) at the following amounts:

Primary government	\$ 3,769,442
Fiduciary funds	7,465
Component units	174,906

Of all deposits held in the name of the City of Bad Axe, Michigan, approximately \$1,461,000 is covered by federal depository insurance and the remainder is uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### **Investments**

The GASB Statement No. 3 risk disclosures for the City's investments are as follows:

#### **Non-risk categorized investments**

	<u>Carrying Value</u>	<u>Market Value</u>
Prime vest Money Market Funds	\$ 246,698	\$ 246,698
NBD Governmental Operating Money Market Fund	<u>11,177</u>	<u>11,177</u>
	<u>\$ 257,875</u>	<u>\$ 257,875</u>

**Note 5 – Capital Assets**

Capital asset activity of the City's governmental and business type activities was as follows:

	Balance June 30, 2004	Additions	Disposals & Adjustments	Balance June 30, 2005
Governmental activities:				
Primary government:				
Capital assets not being depreciated:				
Land	\$ 436,400	\$ -	\$ -	\$ 436,400
Construction in progress	-	157,606	-	157,606
Net capital assets not being depreciated	436,400	157,606	-	594,006
Capital assets being depreciated:				
Drains	1,523,525	-	-	1,523,525
Roads	1,713,455	143,928	-	1,857,383
Streetscape improvements	1,026,049	-	-	1,026,049
Buildings and improvements	580,188	3,300	-	583,488
Land improvements	113,000	-	-	113,000
Machinery and equipment	916,856	-	90,328	826,528
Vehicles	398,191	15,215	17,329	396,077
Subtotal	6,271,264	162,443	107,657	6,326,050
Accumulated depreciation:				
Drains	729,745	76,177	-	805,922
Roads	560,203	81,025	-	641,228
Streetscape improvements	404,531	51,303	-	455,834
Buildings and improvements	227,419	17,936	-	245,355
Land improvements	71,668	3,542	-	75,210
Machinery and equipment	618,824	83,324	90,328	611,820
Vehicles	311,033	26,185	17,329	319,889
Subtotal	2,923,423	339,492	107,657	3,155,258
Net capital assets being depreciated	3,347,841	(177,049)	-	3,170,792
Net capital assets	3,784,241	(19,443)	-	3,764,798

Notes to Financial Statements  
June 30, 2005  
(Continued)

	Balance June 30, 2004	Additions	Disposals & Adjustments	Balance June 30, 2005
Business type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 92,857	\$ -	\$ 92,857
Capital assets being depreciated:				
Water system plant	1,654,626	267,577	-	1,922,203
Sewer system plant	6,310,719	25,214	78,728	6,257,205
Subtotal	7,965,345	292,791	78,728	8,179,408
Accumulated depreciation:				
Water system plant	721,557	69,903	-	791,460
Sewer system plant	3,155,806	183,654	78,728	3,260,732
Subtotal	3,877,363	253,557	78,728	4,052,192
Net capital assets being depreciated	4,087,982	39,234	-	4,127,216
Net capital assets	4,087,982	132,091	-	4,220,073
Total primary government	\$ 7,872,223	\$ 112,648	\$ -	\$ 7,984,871
Discretely presented component units:				
Capital assets not being depreciated:				
Land	\$ 7,000	\$ -	\$ -	\$ 7,000
Capital assets being depreciated:				
Buildings and improvements	457,918	-	-	457,918
Machinery and equipment	61,972	-	-	61,972
Books and media	135,291	26,044	26,190	135,145
Subtotal	655,181	26,044	26,190	655,035
Accumulated depreciation:				
Buildings and improvements	238,573	19,189	-	257,762
Machinery and equipment	49,622	7,137	-	56,759
Books and media	69,238	27,043	26,190	70,091
Subtotal	357,433	53,369	26,190	384,612
Net capital assets being depreciated	297,748	(27,325)	-	270,423
Net capital assets	\$ 304,748	\$ (27,325)	\$ -	\$ 277,423

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 45,155
Public safety	23,565
Public works	<u>270,772</u>
Total governmental activities	<u>\$ 339,492</u>
Business type activities:	
Water system	\$ 69,903
Sewer system	<u>183,654</u>
Total business type activities	<u>\$ 253,557</u>
Component units:	
Recreation and culture	<u>\$ 53,369</u>

#### Note 6 – Interfund Receivables, Payables, and Transfers

The interfund balances are comprised of the following:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<b>General fund:</b>		
Operations	\$ 23,908	\$ 163,033
<b>Special revenue funds:</b>		
Major Street	-	18,360
Local Street	6,290	14,978
Parks	<u>37,740</u>	<u>1,250</u>
	44,030	34,588
<b>Enterprise funds:</b>		
Water/Sewer	125,293	14,986
<b>Internal service funds:</b>		
Motor Vehicle Equipment	40,715	3,720
<b>Agency funds:</b>		
Tax	-	7,336
<b>Component units:</b>		
DDA	-	80
Library	<u>-</u>	<u>10,203</u>
	<u>-</u>	<u>10,283</u>
	<u>\$ 233,946</u>	<u>\$ 233,946</u>

Interfund transfers are comprised of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>General fund:</b>		
Operations	\$ 150,000 (a)	\$ 2,100 (b)
<b>Special revenue funds:</b>		
Major Street	-	38,925 (d)
Local Street	71,925 (c) & (d)	-
County Road Millage	-	33,000 (c)
Parks	-	50,000 (a)
<b>Internal service funds:</b>		
Motor Vehicle Equipment	-	100,000 (a)
<b>Debt service funds:</b>		
Drains	<u>2,100 (b)</u>	<u>-</u>
	<u>\$ 224,025</u>	<u>\$ 224,025</u>

- (a) Transfer of discretionary funds to be used for the benefit of the community
- (b) Transfer for debt service payments
- (c) Transfer for capital improvements
- (d) Allowable transfer under Act 51 in the amount of \$ 38,925

**Note 7 – Long-term Debt**

A summary of changes in long-term debt is as follows:

	<u>June 30, 2004</u>	<u>Additions (Retirements)</u>	<u>June 30, 2005</u>	<u>Within One Year</u>
<b><u>Governmental activities:</u></b>				
<b>General Obligation Debt:</b>				
Other Long-term Obligations:				
Drain assessments payable - Bad Axe Drain - Phase I, due in annual installments of \$24,066 plus interest annually at 7.000% through March 1, 2007 (a)	\$ 72,196	\$ (24,065)	\$ 48,131	\$ 24,066
Drain assessments payable - Bad Axe Drain - Phase II, due in annual installments of \$52,500 plus interest annually at 6.720% through March 1, 2014 (a)	525,000	(52,500)	472,500	52,500
Drain assessments payable - Crumback Drain, due in annual installments of \$6,826 plus interest annually at 4.650% to 5.000% through March 1, 2013 (a)	61,438	(6,827)	54,611	6,826
Drain assessments payable - Bissett and Branches Drain, due in annual installments of \$169, 0% interest through March 1, 2005 (a)	169	(169)	-	-
\$140,000 land contract for the purchase of land due in annual installments of \$13,216 including interest at a rate of 7.000% through January 15, 2008; a final payment of \$89,286 is due on January 15, 2009	108,425	(5,627)	102,798	6,020
\$100,000 land contract for the purchase of land, due in annual installments of \$10,000 plus interest annually at 3.750% through July 1, 2011	80,000	(10,000)	70,000	10,000
\$142,000 installment purchase contract for DDA Streetscape capital project, due in annual installments of \$17,507 including interest at 4.000% through October 1, 2011(b)	117,872	(12,792)	105,080	13,304
\$75,000 installment purchase contract for DDA Streetscape capital project, due in annual installments of \$9,247 including interest at 4.000% through October 1, 2011(b)	62,257	(6,757)	55,500	7,027

	Balance June 30, 2004	Additions (Retirements)	Balance June 30, 2005	Due Within One Year
<b><u>Governmental activities (Continued):</u></b>				
<b>General Obligation Debt (Continued):</b>				
Other Long-term Obligations (Continued):				
Brick Street Assessment installment contract, due in annual installments of \$24,600 plus interest annually at 2.000% to 3.950% through June 10, 2014	246,000	(24,600)	221,400	24,600
Total other debt	1,273,357	(143,337)	1,130,020	144,343
<b>Accumulated Fringe Benefits:</b>				
Vested sick leave	89,859	10,239	100,098	-
Total governmental activities	1,363,216	(133,098)	1,230,118	144,343
<b><u>Business type activities:</u></b>				
<b>General Obligation Bonds:</b>				
\$1,700,000 1992 sewer refunding bonds due in annual installments of \$110,000 plus interest semi-annually at 5.750% through June 1, 2006	225,000	(115,000)	110,000	110,000
<b>County Contractual Obligations:</b>				
\$1,605,000 1996 water supply and sewage disposal bonds - Series B due in annual installments of \$175,000 to \$200,000 plus interest semi-annually at 4.500% to 4.750% through December 1, 2007	700,000	(150,000)	550,000	175,000
Less unamortized discount	(30,142)	12,746	(17,396)	-
Net debt	669,858	(137,254)	532,604	175,000
\$1,900,000 1996 water supply and sewage disposal bonds - Series A due in annual installments of \$50,000 to \$200,000 plus interest semi-annually at 4.125% to 7.125% through December 1, 2015	1,750,000	(50,000)	1,700,000	50,000
Less unamortized discount	(16,377)	1,177	(15,200)	-
Net debt	1,733,623	(48,823)	1,684,800	50,000
Total business type activities	2,628,481	(301,077)	2,327,404	335,000
Total primary government	\$ 3,991,697	\$ (434,175)	\$ 3,557,522	\$ 479,343

- (a) The Michigan drain code requires each entity so assessed to pay each assessment installment and interest thereon from its general or contingent fund or to levy ad valorem taxes on all taxable property in the entity for such purposes, subject to applicable charter, statutory and constitutional tax limitations.
- (b) The borrowed funds will be repaid by the DDA with captured taxes on special assessments to the downtown development district. Accordingly, debt service payments are reported in the DDA component unit fund.

Annual debt service requirements to maturity for the above bond obligations, excluding the unamortized discounts are as follows:

**Governmental Activities**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 144,343	\$ 61,206	\$ 205,549
2007	145,578	53,548	199,126
2008	122,808	45,711	168,519
2009	200,240	39,402	239,642
2010	117,711	27,625	145,336
2011-2015	<u>399,340</u>	<u>50,922</u>	<u>450,262</u>
	<u>\$ 1,130,020</u>	<u>\$ 278,414</u>	<u>\$ 1,408,434</u>

**Business Type Activities**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 335,000	\$ 112,163	\$ 447,163
2007	225,000	94,290	319,290
2008	250,000	81,931	331,931
2009	175,000	71,156	246,156
2010	175,000	62,581	237,581
2011-2015	1,000,000	162,125	1,190,582
Thereafter	<u>200,000</u>	<u>8,250</u>	<u>208,250</u>
	<u>\$ 2,360,000</u>	<u>\$ 592,496</u>	<u>\$ 2,952,496</u>

In addition to the above debt, the Downtown Development Authority owes the State of Michigan \$63,575. This represents the amount of incorrectly captured school taxes for the 1998 through 2003 levies. These amounts will be repaid over periods to be determined by the parties.

## Note 8 – Property Taxes

The 2004 ad valorem tax levy was based on the following property valuations and millage rates:

Total taxable valuation:	<u>\$ 84,292,935</u>
Millage rates per \$1,000 of taxable valuation:	<u>Mills</u>
General Fund	14.25
Parks Fund	1.00
Library Fund	1.00
Local Street Fund	0.55
1992 Refunding Bond Fund (1983 sewer debt)	1.40
Drain Debt Service Fund	<u>1.36</u>
Total mills	<u>19.56</u>

## Note 9 – Retirement Plans

### Defined Benefit Pension Plan

#### Plan description

The City contributes to defined benefit pension plans with the Michigan Municipal Employees Retirement System (MERS). All full-time administration, DPW and police employees are eligible to join the plan. The plan became effective August 1, 1999.

The Municipal Employees Retirement System of Michigan (MERS), is an agent multiple-employer, state-wide, public employee pension plan that was created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. Pursuant to Act 220, on August 15, 1996, MERS became an independent public non-profit corporation, which is an instrumentality of the participating municipalities and courts. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. It provides centralized administration and investment of plan assets, but each employer unit is separately experienced rated. MERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

#### Funding Policy

Employees are required to contribute 5% of their annual earnings to the System. The City is required to contribute based on an actuarially determined rate.

#### Annual pension cost

For 2005, the City's annual pension cost was equal to their required contribution. Actual contributions were made based on the actual payroll paid rather than the estimated payroll used in the actuarial valuation. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) investment rate of return of 8%; (b) projected salary increases ranging from 4.5% to 8.66% per year; and (c) 2.5% per year cost of living increases. The actuarial value of plan assets was determined using methods that smooth the effect of short-term volatility in the market value of investments over a four-year period.

**Three-year information**

<u>Year Ending</u>	<u>Annually Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2005	\$ 116,083	100%	\$ -
6/30/2004	97,653	100%	-
6/30/2003	139,266	100%	-

**Defined Contribution Pension Plan**

One employee of the City participates in a defined contribution pension plan entitled "City of Bad Axe Group Pension Plan". The plan administrator is Manulife. Under the Plan agreement, the City is required to contribute an amount equal to 8.5% of the annual compensation paid to covered employees. Employees are required to contribute an amount equal to 2.5% of their annual compensation. Employees may also make voluntary non-deductible contributions to the Plan up to a maximum of 10% of their annual compensation. Compensation for Plan purposes does not include payments for overtime. Employee non-deductible voluntary contributions may only be withdrawn upon termination of employment, retirement or death. Benefits vest after ten years of service. Employees not wishing to participate in the plan must notify the plan administrator in writing.

All contributions to the Plan are invested with Manulife under an Allocated Retirement Account. Each employee has 11 investment options from the security of a guaranteed account to the opportunities of an aggressive stock fund.

The following pension data is presented for the year ended June 30, 2005:

Total payroll	<u>\$ 1,287,830</u>
Total payroll for employees covered by the plan	<u>\$ 21,592</u>
Employer contribution percentage	8.5%
Employer contribution	<u>\$ 1,835</u>
Employer contribution percentage	2.5%
Required employee contributions	\$ 540
Employee non-deductible voluntary contributions	<u>-</u>
Total employee contributions	<u>\$ 540</u>

**Note 10 – Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The City participates in the Michigan Municipal League Liability and Property Pool. The maximum insurance coverages are \$7,046,246 for property damage and \$1,000,000 for liability claims.

**Note 11 – Joint Ventures**

The City is a constituent member of the Bad Axe Fire Protection Association and the Central Huron Ambulance Service Association, which provides fire protection services and emergency ambulance services to the City of Bad Axe. The City has estimated that its percentage of contributions is 45% and 35% to Bad Axe Fire Protection Association and Central Huron Ambulance Service Association, respectively.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments of any of the above joint ventures in the near future.

Complete financial statements can be obtained from the administrative offices at the following locations:

Bad Axe Fire Protection Association  
420 S. Hanselman  
Bad Axe, Michigan 48413

Central Huron Ambulance Service Association  
291 W. Soper Road  
Bad Axe, Michigan 48413

**Note 12 – Restricted Fund Balance**

The following is a summary of the restricted fund balances of the governmental funds and discretely presented component units with management's designations:

<u>Restricted For</u>	<u>Special Revenue</u>	<u>Brick Street Capital Assessment</u>	<u>Debt Service</u>	<u>DDA Streetscape</u>	<u>Library</u>
Capital projects	\$ -	\$ 4,683	\$ -	\$ 562	\$ -
Debt service	-	-	1,015	-	-
Other purposes	<u>420,353</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,045</u>
Total	<u>\$ 420,353</u>	<u>\$ 4,683</u>	<u>\$ 1,015</u>	<u>\$ 562</u>	<u>\$ 20,045</u>

**Note 13 – Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Taxes receivable	\$ 2,265	\$ -
Special assessments	\$ 223,667	\$ -

**Note 14 – Fund Balance Restatements**

Fund balances of the General Fund at June 30, 2004 were decreased by \$20,726 to reflect corrections in the recording of accounts payable. Additionally, the Water and Sewer Fund's fund balance, as of June 30, 2004, was increased by \$36,018 to reflect corrections in the recording of unbilled utility usage fees.

**Note 15 – Water System**

The City and the Village of Port Austin are members of the Huron Regional Water Authority (HRWA). The Authority is building a water pipeline (completed as of June 30, 2005) from Bad Axe to Port Austin and a water treatment plant (in progress as of June 30, 2005). Upon completion of the treatment facilities, the City will purchase water from the Authority. The City has irrevocably pledged the net revenues of its water system for its respective share of Authority bond obligations. City management will be restructuring water rates so that provisions for these debt payments are included. The new system is expected to be operational after January 1, 2006.

## **Required Supplemental Information**

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## Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a % of Covered Payroll
12/31/99	\$ 546,368	\$ 733,008	\$ 186,640	75%	\$ 355,284	52.53%
12/31/00	640,259	788,693	148,434	81%	382,040	38.85%
12/31/01	1,724,554	2,455,114	730,560	70%	962,402	75.91%
12/31/02	1,802,661	2,808,374	1,005,713	64%	1,053,851	95.43%
12/31/03	2,114,421	3,699,445	1,585,024	57%	1,005,126	157.69%
12/31/04	2,333,359	4,020,710	1,687,351	58%	1,092,742	154.41%

**General Fund**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budgetary Comparison**  
**For the Year Ended June 30, 2005**

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 1,165,380	\$ 1,171,960	\$ 1,163,309	\$ (8,651)
Licenses and permits	12,000	14,877	14,967	90
Federal sources	40,000	40,000	40,000	-
State sources	355,500	398,913	402,641	3,728
Local sources	123,000	7,500	7,500	-
Fines and forfeitures	8,000	7,000	8,500	1,500
Interest income	9,000	13,422	18,090	4,668
Rental income	3,000	3,000	3,010	10
Miscellaneous	109,550	115,435	123,819	8,384
<b>Total revenues</b>	<b>1,825,430</b>	<b>1,772,107</b>	<b>1,781,836</b>	<b>9,729</b>
<b>Expenditures:</b>				
General government:				
City council	19,250	19,496	18,372	1,124
Administration	319,891	426,496	422,835	3,661
Elections	3,000	5,382	4,104	1,278
Assessing	24,200	24,365	21,898	2,467
Buildings and grounds	7,900	6,943	5,791	1,152
City hall	61,700	62,416	58,436	3,980
<b>Total general government</b>	<b>435,941</b>	<b>545,098</b>	<b>531,436</b>	<b>13,662</b>
Public safety:				
Ambulance	8,655	8,655	8,655	-
Police:				
Administration/dispatch	155,125	187,100	188,465	(1,365)
K-9	5,000	5,000	5,466	(466)
Patrol service	314,500	397,888	388,853	9,035
Crossing guard/parking	3,000	3,920	3,681	239
Justice training	1,000	1,000	617	383
Code enforcement	45,500	56,263	54,799	1,464
Fire	100,000	91,123	91,123	-
<b>Total public safety</b>	<b>632,780</b>	<b>750,949</b>	<b>741,659</b>	<b>9,290</b>
Public works:				
Supervision	47,110	63,205	63,210	(5)
Leaves/yard/waste	152,350	31,450	30,513	937
Parking lots and alleys	33,050	45,594	42,901	2,693
Community service	18,740	21,775	21,679	96
Sidewalks	41,425	48,470	45,019	3,451
Building and yard	25,350	26,599	31,255	(4,656)
Street lights	67,250	67,250	70,394	(3,144)
<b>Total public works</b>	<b>385,275</b>	<b>304,343</b>	<b>304,971</b>	<b>(628)</b>

**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budgetary Comparison**  
**For the Year Ended June 30, 2005**  
**(Continued)**

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Economic development: Planning	\$ 30,090	\$ 7,100	\$ 25,886	\$ (18,786)
Recreation and culture: Parks and recreation	211,150	254,055	256,803	(2,748)
Other:				
Medical insurance	63,000	250	248	2
Life/disability insurance	3,500	1,207	1,207	-
Retirement contribution	72,000	-	-	-
Payroll taxes	62,000	-	-	-
Worker's compensation insurance	7,000	-	-	-
Other	9,600	5,600	5,615	(15)
Total other	217,100	7,057	7,070	(13)
Debt service:				
Principal	15,627	15,627	15,627	-
Interest and charges	10,589	10,597	10,597	-
Total debt service	26,216	26,224	26,224	-
Total expenditures	1,938,552	1,894,826	1,894,049	777
Excess of revenue over (under) expenditures	(113,122)	(122,719)	(112,213)	10,506
<b>Other financing sources (uses):</b>				
Transfers in	150,000	150,000	150,000	-
Transfers out	-	-	(2,100)	(2,100)
Total other financing sources (uses)	150,000	150,000	147,900	(2,100)
Excess of revenue and other financing sources over (under) expenditures	36,878	27,281	35,687	8,406
Fund balance, beginning of year	913,268	913,268	913,268	-
Prior period adjustment	(20,726)	(20,726)	(20,726)	-
Fund balance, end of year	\$ 929,420	\$ 919,823	\$ 928,229	\$ 8,406

**Major Special Revenue Funds**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budgetary Comparison**  
**For the Year Ended June 30, 2005**

	<b>MAJOR STREET</b>			Variance
	Original Budget	Amended Budget	Actual	Positive (Negative)
<b>Revenues:</b>				
State sources	\$ 183,000	\$ 185,270	\$ 190,714	\$ 5,444
Interest income	1,850	1,700	1,921	221
Miscellaneous	-	-	863	863
Total revenues	184,850	186,970	193,498	6,528
<b>Expenditures:</b>				
Public works:				
Construction	13,060	13,940	4,769	9,171
Surface maintenance	12,180	18,353	11,296	7,057
Sweeping	10,625	12,230	10,324	1,906
Drainage	8,950	14,025	17,384	(3,359)
Trees and shrubs	12,180	13,450	11,899	1,551
Grading and dust control	1,155	1,655	1,893	(238)
Grass and weed control	1,355	1,615	998	617
Traffic signs/signals	2,570	3,200	2,397	803
Pavement marking	2,395	2,970	2,714	256
Snow and ice	30,150	47,050	40,636	6,414
Trunkline maintenance	3,432	3,957	810	3,147
Trunkline sweeping	7,232	8,262	5,978	2,284
Trunkline drainage	4,617	5,347	1,002	4,345
Trunkline trees and shrubs	2,915	3,295	546	2,749
Trunkline grass and weeds	590	803	366	437
Trunkline traffic signs/signals	10,265	13,970	6,099	7,871
Trunkline pavement marking	1,140	1,375	741	634
Trunkline snow and ice	31,500	16,700	11,944	4,756
Trunkline hauling snow	7,665	7,562	5,675	1,887
Administration fees	14,000	14,000	14,000	-
Fringe benefits	19,225	250	-	250
Total expenditures	197,201	204,009	151,471	52,538
Excess of revenue over (under) expenditures	(12,351)	(17,039)	42,027	59,066
<b>Other financing sources (uses):</b>				
Transfers in	30,000	-	-	-
Transfers out	(37,500)	(37,500)	(38,925)	(1,425)
Total other financing sources (uses)	(7,500)	(37,500)	(38,925)	(1,425)
Excess of revenue and other financing sources over (under) expenditures and other financing uses	(19,851)	(54,539)	3,102	57,641
Fund balance, beginning of year	160,773	160,773	160,773	-
Fund balance, end of year	\$ 140,922	\$ 106,234	\$ 163,875	\$ 57,641

**Major Special Revenue Funds**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budgetary Comparison**  
**For the Year Ended June 30, 2005**

	<b>LOCAL STREET</b>			Variance
	Original Budget	Amended Budget	Actual	Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 44,550	\$ 43,490	\$ 42,959	\$ (531)
State sources	67,079	73,079	75,413	2,334
Special assessments	-	-	359	359
Interest income	600	350	400	50
Miscellaneous	-	-	348	348
Total revenues	112,229	116,919	119,479	2,560
<b>Expenditures:</b>				
Public works:				
Construction	14,300	14,555	6,156	8,399
Surface maintenance	111,800	39,188	40,087	(899)
Sweeping	12,160	13,453	15,164	(1,711)
Drainage	15,200	18,150	20,577	(2,427)
Trees and shrubs	19,795	22,270	20,818	1,452
Grading and dust control	2,115	2,527	2,727	(200)
Grass and weed control	3,120	4,590	4,636	(46)
Traffic signs/signals	5,570	6,810	4,678	2,132
Pavement marking	2,715	3,790	3,269	521
Snow and ice	25,395	23,951	22,822	1,129
Administration fees	11,000	11,000	11,000	-
Fringe benefits	15,050	200	-	200
Total expenditures	238,220	160,484	151,934	8,550
Excess of revenue over (under) expenditures	(125,991)	(43,565)	(32,455)	11,110
<b>Other financing sources:</b>				
Transfers in	137,500	70,500	71,925	1,425
Excess of revenue and other financing sources over expenditures	11,509	26,935	39,470	12,535
Fund balance, beginning of year	11,354	11,354	11,354	-
Fund balance, end of year	\$ 22,863	\$ 38,289	\$ 50,824	\$ 12,535

**Major Special Revenue Funds**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budgetary Comparison**  
**For the Year Ended June 30, 2005**

**BRICK STREET ASSESSMENT**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>				
Special assessments	\$ -	\$ 36,002	\$ 33,735	\$ (2,267)
Interest income	-	120	119	(1)
Total revenues	-	36,122	33,854	(2,268)
<b>Expenditures:</b>				
General government:				
Contractual services	-	51,084	53,273	(2,189)
Legal services	-	110	110	-
Engineering Services	-	4,285	4,285	-
Debt service:				
Principal	-	24,600	24,600	-
Interest and charges	-	8,972	8,972	-
Total expenditures	-	89,051	91,240	(2,189)
Excess of revenue over (under) expenditures	-	(52,929)	(57,386)	(4,457)
<b>Other financing sources:</b>				
Proceeds from borrowings	246,000	-	-	-
Excess of revenues over (under) expenditures and other financing uses	246,000	(52,929)	(57,386)	(4,457)
Fund balance, beginning of year	62,069	62,069	62,069	-
Fund balance, end of year	<u>\$ 308,069</u>	<u>\$ 9,140</u>	<u>\$ 4,683</u>	<u>\$ (4,457)</u>

## **Other Supplemental Information**

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**SPECIAL REVENUE FUNDS**

	County Road Millage	Parks and Recreation	Drug Law Enforcement
<b>Assets</b>			
Cash and cash equivalents	\$ 205,654	\$ 12,481	\$ 4,685
Receivables:			
Taxes	-	162	-
Interest and accounts	-	-	-
Due from other funds	-	37,740	-
<b>Total assets</b>	<b>\$ 205,654</b>	<b>\$ 50,383</b>	<b>\$ 4,685</b>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ 4,653	\$ -
Accrued payroll and liabilities	-	4,556	-
Due to other funds	-	1,250	-
Deferred revenue	-	162	-
<b>Total liabilities</b>	<b>-</b>	<b>10,621</b>	<b>-</b>
<b>Fund Balance:</b>			
Restricted:			
Capital projects	-	-	-
Debt service	-	-	-
Other purposes	205,654	-	-
Unrestricted	-	39,762	4,685
<b>Total fund balance</b>	<b>205,654</b>	<b>39,762</b>	<b>4,685</b>
<b>Total liabilities and fund balance</b>	<b>\$ 205,654</b>	<b>\$ 50,383</b>	<b>\$ 4,685</b>

**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2005**

<b>DEBT SERVICE FUND</b>	<b>CAPITAL PROJECT FUND</b>	
<u>Drain Debt</u>	<u>DDA Streetscape</u>	<u>Total</u>
\$ 1,015	\$ -	\$ 223,835
130	-	292
-	562	562
<u>-</u>	<u>-</u>	<u>37,740</u>
<u>\$ 1,145</u>	<u>\$ 562</u>	<u>\$ 262,429</u>
\$ -	\$ -	\$ 4,653
-	-	4,556
-	-	1,250
<u>130</u>	<u>-</u>	<u>292</u>
130	-	10,751
-	562	562
1,015	-	1,015
-	-	205,654
<u>-</u>	<u>-</u>	<u>44,447</u>
<u>1,015</u>	<u>562</u>	<u>251,678</u>
<u>\$ 1,145</u>	<u>\$ 562</u>	<u>\$ 262,429</u>

**SPECIAL REVENUE FUNDS**

	<u>County Road Millage</u>	<u>Parks and Recreation</u>	<u>Drug Law Enforcement</u>
<b>Revenues:</b>			
Property taxes	\$ 78,425	\$ 78,106	\$ -
State sources	-	3,598	-
Local sources	-	48,968	3,062
Interest income	<u>3,033</u>	<u>150</u>	<u>7</u>
Total revenues	81,458	130,822	3,069
<b>Expenditures:</b>			
Current:			
Public safety	-	-	1,551
Public works	25,139	-	-
Recreation and culture	-	123,394	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>25,139</u>	<u>123,394</u>	<u>1,551</u>
Excess of revenues over (under) expenditures	56,319	7,428	1,518
<b>Other financing sources (uses):</b>			
Transfers in	-	-	-
Transfers out	<u>(33,000)</u>	<u>(50,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(33,000)</u>	<u>(50,000)</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	23,319	(42,572)	1,518
Fund balances, beginning of year	<u>182,335</u>	<u>82,334</u>	<u>3,167</u>
Fund balances, end of year	<u>\$ 205,654</u>	<u>\$ 39,762</u>	<u>\$ 4,685</u>

**Nonmajor Governmental Funds**

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2005**

<b>DEBT SERVICE FUND</b>	<b>CAPITAL PROJECT FUND</b>	
Drain Debt	DDA Streetscape	Total
\$ 106,250	\$ -	\$ 262,781
4,893	-	8,491
-	-	52,030
244	-	3,434
<u>111,387</u>	<u>-</u>	<u>326,736</u>
-	-	1,551
-	-	25,139
-	-	123,394
<u>127,162</u>	<u>-</u>	<u>127,162</u>
<u>127,162</u>	<u>-</u>	<u>277,246</u>
(15,775)	-	49,490
2,100	-	2,100
<u>-</u>	<u>-</u>	<u>(83,000)</u>
<u>2,100</u>	<u>-</u>	<u>(80,900)</u>
(13,675)	-	(31,410)
<u>14,690</u>	<u>562</u>	<u>283,088</u>
<u>\$ 1,015</u>	<u>\$ 562</u>	<u>\$ 251,678</u>

**Nonmajor Special Revenue Funds**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budgetary Comparison**  
**For the Year Ended June 30, 2005**

**COUNTY ROAD MILLAGE**

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 80,000	\$ 80,000	\$ 78,425	\$ (1,575)
Interest income	1,500	1,500	3,033	1,533
Total revenues	81,500	81,500	81,458	(42)
<b>Expenditures:</b>				
Public works				
Road construction	-	25,139	25,139	-
Excess of revenues over (under) expenditures	81,500	56,361	56,319	(42)
<b>Other Financing Uses:</b>				
Transfers out	(130,000)	(33,000)	(33,000)	-
Excess of revenues over (under) expenditures and other financing uses	(48,500)	23,361	23,319	(42)
Fund balance, beginning of year	182,335	182,335	182,335	-
Fund balance, end of year	<u>\$ 133,835</u>	<u>\$ 205,696</u>	<u>\$ 205,654</u>	<u>\$ (42)</u>

**DRUG LAW ENFORCEMENT**

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>				
Local sources	\$ 1,000	\$ 1,000	\$ 3,062	\$ 2,062
Interest income	-	-	7	7
Total revenues	1,000	1,000	3,069	2,069
<b>Expenditures:</b>				
Public safety:				
Operating supplies	500	500	1,551	(1,051)
Excess of revenue over expenditures	500	500	1,518	1,018
Fund balance, beginning of year	3,167	3,167	3,167	-
Fund balance, end of year	<u>\$ 3,667</u>	<u>\$ 3,667</u>	<u>\$ 4,685</u>	<u>\$ 1,018</u>

**Nonmajor Special Revenue Funds**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budgetary Comparison**  
**For the Year Ended June 30, 2005**

**PARKS AND RECREATION**

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 80,400	\$ 80,500	\$ 78,106	\$ (2,394)
State sources	3,598	3,598	3,598	-
Local sources	37,400	43,224	48,968	5,744
Interest income	250	250	150	(100)
Total revenues	121,648	127,572	130,822	3,250
<b>Expenditures:</b>				
Recreation and culture:				
Administration	48,500	69,840	70,691	(851)
Day camp	19,200	20,050	16,649	3,401
Senior programs	10,500	6,240	4,925	1,315
Programs/Special Events	27,400	32,140	31,129	1,011
Fringe benefits	21,500	900	-	900
Total expenditures	127,100	129,170	123,394	5,776
Excess of revenue over (under) expenditures	(5,452)	(1,598)	7,428	9,026
<b>Other financing uses:</b>				
Transfers out	(50,000)	(50,000)	(50,000)	-
Excess of revenues over (under) expenditures and other financing uses	(55,452)	(51,598)	(42,572)	9,026
Fund balance, beginning of year	82,334	82,334	82,334	-
Fund balance, end of year	<u>\$ 26,882</u>	<u>\$ 30,736</u>	<u>\$ 39,762</u>	<u>\$ 9,026</u>

**Nonmajor Debt Service Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budgetary Comparison**  
**For the Year Ended June 30, 2005**

**DRAIN DEBT**

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 109,300	\$ 107,793	\$ 106,250	\$ (1,543)
State sources	6,476	4,893	4,893	-
Interest income	150	240	244	4
	<u>115,926</u>	<u>112,926</u>	<u>111,387</u>	<u>(1,539)</u>
<b>Expenditures:</b>				
Drains	9,557	9,956	9,898	58
Principal	76,566	76,566	76,566	-
Interest expense	40,333	40,333	40,333	-
Bad Axe drain phase I	200	200	365	(165)
	<u>126,656</u>	<u>127,055</u>	<u>127,162</u>	<u>(107)</u>
Excess of revenue over (under) expenditures	(10,730)	(14,129)	(15,775)	(1,646)
<b>Other financing Sources:</b>				
Transfers in	<u>-</u>	<u>-</u>	<u>2,100</u>	<u>2,100</u>
Excess of revenues and other financing sources over (under) expenditures	(10,730)	(14,129)	(13,675)	454
Fund balance, beginning of year	<u>14,690</u>	<u>14,690</u>	<u>14,690</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 3,960</u></u>	<u><u>\$ 561</u></u>	<u><u>\$ 1,015</u></u>	<u><u>\$ 454</u></u>

**Proprietary Fund  
Statement of Operations  
For the Year Ended June 30, 2005**

		Water and Sewer Fund
		<u>          </u>
Revenues:		
Property taxes		\$ 109,368
State revenues		5,037
Waste collection fees		126,328
Water usage fees		455,026
Sewer usage fees		578,452
Permits and tap fees		25,653
Interest		45,047
Other		<u>17,823</u>
Total revenues		1,362,734
Expenses:		
Waste collection:		
Services		122,387
Water production:		
Salaries	19,079	
Fringe benefits	8,611	
Supplies	1,684	
Services	27,109	
Equipment rentals	2,732	
Depreciation	<u>69,904</u>	129,119
Water distribution:		
Salaries	28,875	
Fringe benefits	12,974	
Supplies	2,112	
Services	972	
Equipment rentals	<u>7,167</u>	52,100
Water hook-ups:		
Salaries	1,677	
Fringe benefits	774	
Supplies	1,448	
Equipment rentals	<u>2,137</u>	6,036
Meter repair:		
Salaries	9,524	
Fringe benefits	4,277	
Supplies	1,889	
Equipment rentals	<u>1,318</u>	17,008
Meter reading:		
Salaries	10,922	
Fringe benefits	5,025	
Supplies	417	
Equipment rentals	<u>1,474</u>	17,838

**Proprietary Fund  
Statement of Operations  
For the Year Ended June 30, 2005  
(Continued)**

Expenses (continued):

Tests and samples:

Salaries	1,784	
Fringe benefits	800	
Supplies	21	
Services	1,130	
Equipment rentals	350	4,085

Water pipeline:

Salaries	678	
Fringe benefits	317	
Equipment rentals	131	1,126

Sewer collection:

Salaries	28,549	
Fringe benefits	13,078	
Supplies	531	
Services	420	
Equipment rentals	34,227	76,805

Sewer plant supervision:

Salaries	63,736	
Fringe benefits	10,989	
Supplies	1,046	
Services	34,934	
Equipment rentals	3,500	
Depreciation	183,653	297,858

Sewer plant operations:

Salaries	38,044	
Fringe benefits	28,432	
Supplies	22,684	
Services	105,460	194,620

Sewer lift station:

Salaries	8,873	
Fringe benefits	2,852	
Supplies	3,956	
Services	9,516	
Equipment rentals	1,814	27,011

Sewer lab:

Salaries	35,589	
Fringe benefits	10,021	
Supplies	6,415	
Services	471	52,496

**Proprietary Fund  
Statement of Operations  
For the Year Ended June 30, 2005  
(Continued)**

Expenses (continued):

Sewer plant building and grounds:

Salaries	5,934	
Fringe benefits	1,870	
Supplies	1,852	
Services	8,732	
Equipment rentals	<u>1,666</u>	20,054

Administration:

Insurance	4,958	
Bond cost - amortization	5,975	
Miscellaneous	1,744	
Services	3,901	
Management fees	<u>56,125</u>	72,703

Interest expense		<u>142,106</u>
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Total expenses		<u>1,233,352</u>
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Excess of revenues over expenditures		<u><u>\$ 129,382</u></u>
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**Discretely Presented Component Units**  
**Combining Balance Sheet**  
**June 30, 2005**

	Economic Development Corporation	Downtown Development Authority	Library	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 4,128	\$ 100,632	\$ 77,599	\$ 182,359
Receivables:				
Taxes	-	-	166	166
Interest and accounts	-	-	5,766	5,766
Prepays	-	-	1,916	1,916
Total assets	<u>\$ 4,128</u>	<u>\$ 100,632</u>	<u>\$ 85,447</u>	<u>\$ 190,207</u>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
Accrued payroll and liabilities	\$ -	\$ -	\$ 1,687	\$ 1,687
Due to primary government	-	80	10,203	10,283
Deferred revenue	-	-	166	166
Total liabilities	-	80	12,056	12,136
<b>Fund Balance:</b>				
Restricted:				
Other purposes	-	-	20,045	20,045
Unrestricted	<u>4,128</u>	<u>100,552</u>	<u>53,346</u>	<u>158,026</u>
Total fund balance	<u>4,128</u>	<u>100,552</u>	<u>73,391</u>	<u>178,071</u>
Total liabilities and fund balance	<u>\$ 4,128</u>	<u>\$ 100,632</u>	<u>\$ 85,447</u>	<u>\$ 190,207</u>

**Reconciliation of Fund Balance on the Balance Sheet for the  
Discretely Presented Component Units to Net Assets  
of Governmental Activities on the Statement of Net Assets  
June 30, 2005**

Fund balance, discretely presented component units		\$ 178,071
Amounts reported for component units in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets	662,035	
Accumulated depreciation	<u>(384,612)</u>	277,423
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Accounts payable		<u>(63,575)</u>
Net assets, discretely presented component units		<u>\$ 391,919</u>

**Discretely Presented Component Units**

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2005**

	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	<u>Library</u>	<u>Total</u>
<b>Revenues:</b>				
Property taxes	\$ -	\$ 85,945	\$ 78,057	\$ 164,002
State sources	-	-	11,674	11,674
Local sources	-	100	51,090	51,190
Interest income	-	-	1,049	1,049
Rental income	-	-	9,933	9,933
Other	-	-	34,830	34,830
	<u>-</u>	<u>-</u>	<u>34,830</u>	<u>34,830</u>
Total revenues	-	86,045	186,633	272,678
<b>Expenditures:</b>				
Current:				
Public works	-	15,828	-	15,828
Recreation and culture	-	-	182,167	182,167
Debt service	-	26,754	-	26,754
	<u>-</u>	<u>26,754</u>	<u>-</u>	<u>26,754</u>
Total expenditures	-	42,582	182,167	224,749
	<u>-</u>	<u>42,582</u>	<u>182,167</u>	<u>224,749</u>
Excess of revenue over expenditures	-	43,463	4,466	47,929
Fund balance, beginning of year	<u>4,128</u>	<u>57,089</u>	<u>68,925</u>	<u>130,142</u>
Fund balance, end of year	<u>\$ 4,128</u>	<u>\$ 100,552</u>	<u>\$ 73,391</u>	<u>\$ 178,071</u>

**Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balance of the Discretely Presented  
Component Units to the Statement of Activities  
June 30, 2005**

Net change in fund balances, discretely presented component units		\$ 47,929
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	26,044	
Depreciation expense	<u>(53,369)</u>	(27,325)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Increase in long-term payables		<u>(63,575)</u>
Change in net assets, discretely presented component units		<u>\$ (42,971)</u>

Discretely Presented Component Units  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budgetary Comparison**  
**For the Year Ended June 30, 2005**

**DOWNTOWN DEVELOPMENT AUTHORITY**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>				
Property taxes	\$ 67,000	\$ 67,000	\$ 85,945	\$ 18,945
Local sources	275	275	100	(175)
Total revenues	67,275	67,275	86,045	18,770
<b>Expenditures:</b>				
Current:				
Public works:				
Contractual services	10,000	10,000	11,405	(1,405)
Rent	300	300	313	(13)
Miscellaneous	4,000	4,000	4,110	(110)
Debt service	26,755	26,755	26,754	1
Total expenditures	41,055	41,055	42,582	(1,527)
Excess of revenue over expenditures	26,220	26,220	43,463	17,243
Fund balance, beginning of year	57,089	57,089	57,089	-
Fund balance, end of year	<u>\$ 83,309</u>	<u>\$ 83,309</u>	<u>\$ 100,552</u>	<u>\$ 17,243</u>

Discretely Presented Component Units  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budgetary Comparison**  
**For the Year Ended June 30, 2005**

**LIBRARY**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>				
Property taxes	\$ 80,000	\$ 80,000	\$ 78,057	\$ (1,943)
State sources	8,000	8,000	11,674	3,674
Local sources	52,500	52,500	51,090	(1,410)
Interest income	600	600	1,049	449
Rental income	13,000	13,000	9,933	(3,067)
Other	19,500	19,500	34,830	15,330
	<u>173,600</u>	<u>173,600</u>	<u>186,633</u>	<u>13,033</u>
<b>Expenditures:</b>				
Current:				
Recreation and culture:				
Salaries and fringe benefits	120,000	120,000	117,114	2,886
Professional services	500	500	351	149
Books, periodicals, and media	27,000	27,000	28,913	(1,913)
Supplies	15,500	15,500	12,244	3,256
Utilities	13,760	13,760	10,293	3,467
Capital outlay	2,500	2,500	2,253	247
Contractual services	2,240	2,240	1,792	448
Other	8,600	8,600	9,207	(607)
	<u>190,100</u>	<u>190,100</u>	<u>182,167</u>	<u>7,933</u>
Excess of revenue over (under) expenditures	(16,500)	(16,500)	4,466	20,966
Fund balance, beginning of year	68,925	68,925	68,925	-
Fund balance, end of year	<u>\$ 52,425</u>	<u>\$ 52,425</u>	<u>\$ 73,391</u>	<u>\$ 20,966</u>

**Schedule of Drain Assessments Payable - Bad Axe Drain - Phase I**  
**Principal and Interest Obligation as of June 30, 2005**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/06	\$ 24,065.53	7.000%	\$ 3,368.87	\$ 27,434.40
03/01/07	24,065.53	7.000%	1,684.28	25,749.81
	<u>\$ 48,131.06</u>		<u>\$ 5,053.15</u>	<u>\$ 53,184.21</u>

**Schedule of Drain Assessments Payable - Bad Axe Drain - Phase II**  
**Principal and Interest Obligation as of June 30, 2005**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/06	\$ 52,500.00	6.720%	\$ 31,752.00	\$ 84,252.00
03/01/07	52,500.00	6.720%	28,224.00	80,724.00
03/01/08	52,500.00	6.720%	24,696.00	77,196.00
03/01/09	52,500.00	6.720%	21,168.00	73,668.00
03/01/10	52,500.00	6.720%	17,640.00	70,140.00
03/01/11	52,500.00	6.720%	14,112.00	66,612.00
03/01/12	52,500.00	6.720%	10,584.00	63,084.00
03/01/13	52,500.00	6.720%	7,056.00	59,556.00
03/01/14	52,500.00	6.720%	3,528.00	56,028.00
	<u>\$ 472,500.00</u>		<u>\$ 158,760.00</u>	<u>\$ 631,260.00</u>

**Schedule of Drain Assessments Payable - Crumback Drain  
Principal and Interest Obligation as of June 30, 2005**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/06	\$ 6,826.40	4.650%	\$ 2,730.56	\$ 9,556.96
03/01/07	6,826.40	4.750%	2,389.24	9,215.64
03/01/08	6,826.40	4.700%	2,047.92	8,874.32
03/01/09	6,826.40	4.750%	1,706.60	8,533.00
03/01/10	6,826.40	4.800%	1,365.28	8,191.68
03/01/11	6,826.40	4.900%	1,023.96	7,850.36
03/01/12	6,826.40	5.000%	682.64	7,509.04
03/01/13	6,826.40	5.000%	341.32	7,167.72
	<u>\$ 54,611.20</u>		<u>\$ 12,287.52</u>	<u>\$ 66,898.72</u>

**Schedule of Land Contract  
Principal and Interest Obligation as of June 30, 2005**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
01/15/06	\$ 6,020.11	7.000%	\$ 7,195.89	\$ 13,216.00
01/15/07	6,441.52	7.000%	6,774.48	13,216.00
01/15/08	6,892.42	7.000%	6,323.58	13,216.00
01/15/09	<u>83,444.40</u>	7.000%	<u>5,841.11</u>	<u>89,285.51</u>
	<u>\$ 102,798.45</u>		<u>\$ 26,135.06</u>	<u>\$ 128,933.51</u>

**Schedule of Signature Bank Note Payable - Land  
Principal and Interest Obligation as of June 30, 2005**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
07/01/05	\$ 10,000.00	3.750%	\$ 2,625.00	\$ 12,625.00
07/01/06	10,000.00	3.750%	2,250.00	12,250.00
07/01/07	10,000.00	3.750%	1,875.00	11,875.00
07/01/08	10,000.00	3.750%	1,500.00	11,500.00
07/01/09	10,000.00	3.750%	1,125.00	11,125.00
07/01/10	10,000.00	3.750%	750.00	10,750.00
07/01/11	10,000.00	3.750%	375.00	10,375.00
	<u>\$ 70,000.00</u>		<u>\$ 10,500.00</u>	<u>\$ 80,500.00</u>

**Schedule of DDA Streetscape Installment Contract  
Principal and Interest Obligation as of June 30, 2005**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
10/01/05	\$ 13,304.12	4.000%	\$ 4,203.19	\$ 17,507.31
10/01/06	13,836.28	4.000%	3,671.03	17,507.31
10/01/07	14,389.73	4.000%	3,117.58	17,507.31
10/01/08	14,965.32	4.000%	2,541.99	17,507.31
10/01/09	15,563.93	4.000%	1,943.38	17,507.31
10/01/10	16,186.49	4.000%	1,320.82	17,507.31
10/01/11	16,833.95	4.000%	673.36	17,507.31
	<u>\$ 105,079.82</u>		<u>\$ 17,471.35</u>	<u>\$ 122,551.17</u>

**Schedule of DDA Streetscape Installment Contract  
Principal and Interest Obligation as of June 30, 2005**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
10/01/05	\$ 7,026.82	4.000%	\$ 2,220.00	\$ 9,246.82
10/01/06	7,307.90	4.000%	1,938.92	9,246.82
10/01/07	7,600.21	4.000%	1,646.61	9,246.82
10/01/08	7,904.22	4.000%	1,342.60	9,246.82
10/01/09	8,220.39	4.000%	1,026.43	9,246.82
10/01/10	8,549.20	4.000%	697.62	9,246.82
10/01/11	8,891.17	4.000%	355.65	9,246.82
	<u>\$ 55,499.91</u>		<u>\$ 9,227.83</u>	<u>\$ 64,727.74</u>

**Schedule of Brick Street Assessment Installment Contract  
Principal and Interest Obligation as of June 30, 2005**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
06/01/06	\$ 24,600.00	2.000%	\$ 7,109.40	\$ 31,709.40
06/01/07	24,600.00	2.500%	6,617.40	31,217.40
06/01/08	24,600.00	2.850%	6,002.40	30,602.40
06/01/09	24,600.00	3.150%	5,301.30	29,901.30
06/01/10	24,600.00	3.350%	4,526.40	29,126.40
06/10/11	24,600.00	3.550%	3,702.30	28,302.30
06/10/12	24,600.00	3.700%	2,829.00	27,429.00
06/10/13	24,600.00	3.850%	1,918.80	26,518.80
06/10/14	24,600.00	3.950%	971.70	25,571.70
	<u>\$ 221,400.00</u>		<u>\$ 38,978.70</u>	<u>\$ 260,378.70</u>

**Schedule of Refunding Bond Indebtedness**  
**Issue Date August 27, 1992**  
**Principal and Interest Obligation as of June 30, 2005**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
12/01/05			\$ 3,162.50	\$ 3,162.50
06/01/06	<u>\$ 110,000.00</u>	5.750%	<u>3,162.50</u>	<u>113,162.50</u>
	<u><u>\$ 110,000.00</u></u>		<u><u>\$ 6,325.00</u></u>	<u><u>\$ 116,325.00</u></u>

**Schedule of Water Supply and Sewage Disposal Bonds - Series B**

**Issue Date December 1, 1996**

**Principal and Interest Obligation as of June 30, 2005**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
12/01/05	\$ 175,000.00	4.500%	\$ 12,734.20	\$ 187,734.20
06/01/06			8,797.05	8,797.05
12/01/06	175,000.00	4.625%	8,796.70	183,796.70
06/01/07			4,750.00	4,750.00
12/01/07	200,000.00	4.750%	4,750.00	204,750.00
	<u>\$ 550,000.00</u>		<u>\$ 39,827.95</u>	<u>\$ 589,827.95</u>

## Schedule of Water Supply and Sewage Disposal Bonds - Series A

Issue Date December 1, 1996

Principal and Interest Obligation as of June 30, 2005

Maturity Date	Principal	Rate	Interest	Total
12/01/05	\$ 50,000.00	7.125%	\$ 43,043.75	\$ 93,043.75
06/01/06			41,262.50	41,262.50
12/01/06	50,000.00	7.125%	41,262.50	91,262.50
06/01/07			39,481.25	39,481.25
12/01/07	50,000.00	7.125%	39,481.25	89,481.25
06/01/08			37,700.00	37,700.00
12/01/08	175,000.00	4.850%	37,700.00	212,700.00
06/01/09			33,456.25	33,456.25
12/01/09	175,000.00	4.950%	33,456.25	208,456.25
06/01/10			29,125.00	29,125.00
12/01/10	200,000.00	5.000%	29,125.00	229,125.00
06/01/11			24,125.00	24,125.00
12/01/11	200,000.00	5.000%	24,125.00	224,125.00
06/01/12			19,125.00	19,125.00
12/01/12	200,000.00	5.000%	19,125.00	219,125.00
06/01/13			14,125.00	14,125.00
12/01/13	200,000.00	5.000%	14,125.00	214,125.00
06/01/14			9,125.00	9,125.00
12/01/14	200,000.00	5.000%	9,125.00	209,125.00
06/01/15			4,125.00	4,125.00
12/01/15	200,000.00	4.125%	4,125.00	204,125.00
	<u>\$ 1,700,000.00</u>		<u>\$ 546,343.75</u>	<u>\$ 2,246,343.75</u>

**HYZER, HILL, KUZAK & CO., P.C.**

Certified Public Accountants

1242 Sand Beach Road

P.O. Box 326

Bad Axe, MI 48413-0326

Phone: (989) 269-9541 • FAX: (989) 269-6777

Bruce Hill

Donald Kuzak

Michael Doerr

September 20, 2005

City of Bad Axe  
300 East Huron Avenue  
Bad Axe, MI 48413

Dear City Manager and Finance Committee:

In planning and performing our audit of the financial statements of the City of Bad Axe for the year ended June 30, 2005, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This report does not affect our report dated September 20, 2005 on the financial statements of the City of Bad Axe.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,



Hyzer, Hill, Kuzak & Co., P. C.

### Payment of Accrued Sick Time at Termination

The collective bargaining agreements for the Police department and DPW employees stipulate the requirements for payment of accrued sick time at termination. However, there is no written policy for vesting or payment of sick time at termination for non-union personnel.

We recommend that the City develop a policy to address the vesting and payment of accrued sick leave upon termination. This policy should be communicated to existing employees and be included in a personnel manual. Currently, the City does not have a personnel manual, and we recommend that one be developed.

### Vendor Invoices

Vendor invoices are often received by or routed to department heads. Although the department head is responsible for expense coding the invoice and approving it for payment, the accounting department does not maintain control over the invoice. Consequently, invoices may not be recorded in the proper period and the risk of losing vendor discounts is increased. A procedure should be developed whereby all invoices are received by accounts payable and distributed to department heads for approval after they are properly logged in. Accounts payable should then review such listing for any invoices received but not processed.

### Disaster Recovery Plan

The City does maintain computer system backup tapes offsite, but no other formal policy has been adopted if a disaster should hit the City of Bad Axe. The City should contact BS & A for guidance in a disaster recovery situation or form an agreement with another local government for use of their systems in processing payables, payroll, etc. This information should be documented and be readily available in an emergency situation.

### Library Cash Receipts

We believe that the use of a cash register would provide a better record of over the counter cash collections in the Library. The use of the register would provide a better paper trail in reconciling cash deposits and proper revenue accounts.